



January 10, 2008

Dear Hoosier Customers:

Today marks the third year since Governor Daniels was sworn into office as Indiana's 49th Governor. It has also been three years since he created the Indiana Finance Authority (IFA). We continue to strive to better serve Hoosiers in all we do while staying efficient in our operations. Last year, the IFA created further efficiencies in state government by consolidating two more entities into the previous five that came together to initially form the IFA in 2005.

Perhaps the most significant and memorable event since IFA's beginning was the lease of the Indiana Toll Road to the Indiana Toll Road Concession Company (ITRCC) in 2006. To date, the State of Indiana has accumulated more than \$270 million in interest from the initial deposit of \$3.8 billion, and the earnings grow with each passing second. The State's interest earnings from this investment continue to fund numerous roadway projects through Governor Daniels' Major Moves initiative, which otherwise may have never been funded. Furthermore, the new i-Zoom electronic tolling system is partially completed and the Indiana Toll Road now offers three lanes of travel between mileposts 10 and 20 to create a smoother commute for drivers.

Legislation passed during the 2007 session moved several business development programs from the IFA to the Indiana Economic Development Corporation (IEDC) – a much better fit since the IEDC already focuses on marketing assistance to small businesses. Legislation also merged the Indiana Health and Educational Facilities Financing Authority (IHEFFA) into the IFA, allowing IHEFFA programs to use IFA's application processes and staff to create efficiencies and cost savings. Due to these changes, the IFA's newly created Health and Educational Facilities Bond Program is able to eliminate annual fees – an average cost savings of \$40,000 to each borrower over the life of a bond issue. This will not only benefit the borrowers, but students and patients across the state.

The IFA's annual audit of all programs and finances resulted in an unqualified opinion with no audit findings, adjustments or management letter. This was quite an accomplishment considering the complexity of the audit due to the vast amounts of programs requiring analysis. Furthermore, in an effort to reduce future trustee expenses that are required with our bond issues, the IFA issued a Request for Qualifications to evaluate potential successor trustees. After evaluating the potential trustee responses, the IFA entered into a new service agreement with its primary trustee provider that will save more than \$1 million over the next five years.

In early 2007, the IFA refunded highway revenue bonds, saving Indiana an average of \$2.3 million each year through 2029 by reducing interest rates on these bonds from 5.18% to 4.41%. We also issued our second series of bonds to fund the construction of Lucas Oil Stadium to ensure on-time completion.

In our Environmental Finance Programs, the IFA also had a successful year. Two series of bonds were issued in 2007 to leverage funding for the State Revolving Fund (SRF) Loan Programs totaling \$165,760,000. Each year, the SRF Programs receive capitalization grants from the U.S. Environmental Protection Agency (U.S. EPA) to provide financing for water and wastewater infrastructure projects. The State issues bonds to leverage these funds, enabling the SRF Programs to lend two dollars for each grant dollar received to Indiana communities and utilities at lower-than-market rates than if we did not issue bonds.

Calendar Year 2007 marked a significant milestone for the SRF Loan Programs as they crossed the \$2 billion threshold in dollars loaned to Indiana communities to implement wastewater and drinking water projects. In 2007 alone, SRF loaned over \$175 million dollars to 21 Indiana communities. Over the life of the loans, local governments and utilities will realize over \$30 million dollars in interest rate savings when compared to open market loan rates. These loan funds will be used to clean Indiana waterways, eliminate over 2,100 septic systems and improve drinking water quality.

The U.S. EPA recognized the DWSRF Program with a “2007 Drinking Water SRF Award for Sustainable Health Protection.” Indiana’s DWSRF Program received the honor for “showing exceptional creativity in designing projects that promote sustainability and protect public health.” The award is a result of Indiana’s SRF Programs creating alternative funding options to benefit Indiana borrowers and its use of the newly implemented Arsenic Remediation Grant Program, which provided \$470,000 in grant funds to eight Indiana drinking water systems during 2007. The grant program helps offset the cost for small systems to comply with stricter federal standards for arsenic.

The Indiana Brownfields Program also succeeded in disbursing assistance through financial incentives and legal assistance in 2007. Through its financial incentives, 139 grants and low-interest loans were made, totaling nearly \$11 million. These funds will leverage a projected \$140 million in private and local government investments towards brownfields redevelopment projects across the State. The legal staff also issued 22 letters addressing liability and environmental site conditions to property owners. The issuance of these letters either facilitated the cleanup or made the determination that no cleanup was needed for nearly 452 acres of land.

Furthermore, the Indiana Brownfields Program restructured its Petroleum Remediation Grant (PRG) incentive to better use available funds and better assist communities. By allocating \$750,000 to each of seven regions of the state, the Program closed 2007 having awarded PRG grants to more than 80 projects, which are estimated to use the full \$5.25 million allocated to the state of Indiana. Prior to the IFA’s attainment of the Program in July 2005, only 14 sites totaling about \$1 million statewide had been provided funding for remediation of petroleum contamination on brownfield sites. These innovative

changes have proven to be a leap forward in our mission to beautify Indiana and clean up these sites so they can provide income and value to communities.

Also in 2007, the U.S. EPA awarded the Indiana Brownfields Program its first competitive grants to assess brownfield properties for petroleum or hazardous substance contamination. The two assessment grants totaling \$400,000 will fund assessments under the Program's new Trails & Parks Initiative. The Program also closed out a 1998 federal Brownfield Cleanup Revolving Loan Fund grant which, as a result, provided the Program with \$360,000 to loan to Indiana communities and allowed the Program to establish an incentive using the balance of original loan repayments to finance Phase I site assessments.

Not only have we improved efficiencies in our workflow and in the State's finances, but also in how we communicate with our clients and the public. Our website was one of the first to take on a new consistent, customer-friendly format that is being implemented throughout Indiana state government. We know you will find that it provides even more information on our programs and services, making it more user friendly than ever, and we will strive to provide even more online services in 2008.

Governor Daniels aims to improve the health of Indiana's residents, stimulate the economy and provide necessary funding for state infrastructure, and the IFA strives to play a large part in realizing these goals. We are proud of the strides we have made during 2007, but will continue in our endeavors to better serve Hoosiers in the coming year. Thank you for your continued interest in the Indiana Finance Authority.

Sincerely,

A handwritten signature in cursive script, reading "Jennifer M. Alvey".

Jennifer M. Alvey
Public Finance Director
of the State of Indiana